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C O N F I D E N T I A L SECTION 01 OF 02 MUSCAT 001093

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STATE FOR NEA/ARP, EEB/IFD/OMA
COMMERCE FOR ITA COBERG
TREASURY FOR VALVO

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TAGS: EFIN ECON PGOV PREL MU
SUBJECT: BIGGER BUDGET EXPECTED FOR OMAN IN 2008

Classified By: Ambassador Gary A. Grappo for Reasons 1.4 (b and d)

Summary

¶1. (C) The Ministry of National Economy presented the first glimpse of Oman's 2008 budget during a November 26 presentation by its Minister before representatives of the Majlis al-Shura. The budget numbers, which the Ministry characterized as striking a balance between economic development and fiscal responsibility, indicate higher spending figures supported by increased revenues and conservative oil estimates. The Shura members did not have the opportunity to quiz the Minister on the budget, further illustrating the limited authority of the chamber. End Summary.

The Numbers

¶2. (U) On November 26, National Economy Minister Ahmed bin Abdul Nabi Macki provided an overview of Oman's preliminary 2008 budget to the Majlis al-Shura (the directly elected lower house of Oman's bicameral advisory body). The budget calls for expenditures of 5.8 billion Omani rials (USD 15.1 billion), an increase of 910 million RO (USD 2.3 billion) over the 4.9 billion RO (USD 12.7 billion) forecasted for ¶2007. Macki estimated that revenues would total 5.4 billion RO (USD 14 billion), an 8% increase over 2007. The Minister noted that this estimate was based on oil selling at USD 45 per barrel in 2008 and a local production rate of 790,000 barrels per day. With these calculations, Macki informed Majlis members that the government is projected to run a 400 million RO deficit (USD 1.1 billion) for the upcoming calendar year.

¶3. (U) The draft budget provides for increased investment expenditures in 2008, as the proposed figure of 725 million RO (USD 1.9 billion) would be 225 million RO (USD 584 million) higher -- or 45% more -- than what was proposed for ¶2007. This increase mirrors a recent trend by the government to emphasize development projects, as well as costs related to reconstruction of infrastructure damaged by Tropical Cyclone Gonu in June 2007.

Balancing Act

¶4. (U) Macki told the Majlis al-Shura that the budget

represented a balance between support for economic diversification and the need for fiscal responsibility. The draft continues recent efforts to support education and health initiatives, while at the same time encouraging foreign investment via joint partnerships throughout the Sultanate. The Minister stated that the budget drafters took particular interest in funding investment in the oil and gas sectors, as well as those projects that supported privatization efforts. Despite the apparent deficit on paper, Macki forecasted that Oman's three primary reserve funds -- the State General Reserve Fund (SGRF), the Emergency Fund, and the Oman Investment Fund -- would all see strengthened balances over the course of 2008.

Comment

¶5. (C) Macki's appearance before the chamber's first session indicates the new Majlis chairman's emphasis on economic issues. However, members did not receive the opportunity to pose questions to the Minister, pointing to the continued weakness of the body vis-a-vis any apparent substantive role in government policy. The Majlis has submitted written, non-public comments regarding the budget, but whether these comments are actually taken into account in finalizing the draft budget remains unknown.

¶6. (SBU) The budget itself points to continued significant government spending designed to move the economy away from oil production. While projecting a deficit, the government most likely will post another healthy surplus, a result of the extremely conservative oil pricing tactics it usually employs. The additional revenues will most likely be used to strengthen the government's reserve funds, continue financing

MUSCAT 00001093 002 OF 002

various projects related to post-cyclone reconstruction, and further develop its tourism, transportation, and industrial sectors. End Comment.

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